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Success and Goals: an Exploratory Research in Small Enterprises

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Abstract

Goals are important because they guide behaviour and influence performance level. This article aims to identify how small and medium sized enterprises define success, which are the goals that guide them and which factors influence the setting of these goals. Several factors related to the enterprise, not the entrepreneur, were tested. The results show that there is no association between company's goals and those factors - except for one particular type of ability, namely the marketing ability. This makes us believe that in small and medium sized enterprises, the entrepreneur has the most important role in setting the company's goals.

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Keywords: business goals; small and medium sized enterprises; resources and capabilities

1. Introduction

The contribution of small and medium sized enterprises (SMEs) to economic development has been recognized since the late 1940s with the establishment of government agencies responsible for this sector (1948 in Japan, 1953 in the U.S.) and the development of national policies which offered different tax treatment, subsidies and guaranteed loans (OECD, 2008).

SME development was a generalized phenomenon in the last ten years worldwide (EIM Business & Policy Research, 2010). There is a positive relationship between the development of the SME sector in recent years and growth (Leegwater & Shaw, 2008). SMEs have proved to be a major employer in the economy, a generator of added value, a significant participant in the value chains, a player with potential in international markets and an agent of innovation. For example, in late 2009, as reported by Eurostat Business Statistics (Structural Business Statistics), the

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private non-financial economy of the European Union counted 20,975,203 companies, out of which 99.8% were SMEs. They employ over two-thirds of the total workforce and accounts for approximately 60% of the value added created (Wymenga, et al., 2011). The situation is almost similar In Romania.

Compared to large companies, SMEs have the following limitations: a limited market power, a limited customer base, difficulties in exploiting market opportunities, near-total dependence on entrepreneur's skills which are based on previous experience and common sense, and small or no budget for formal training (McCartan-Quinn & Carson, 2003).

However, some of them - called high growth SMEs (OECD, 2010) - obtain superior performance and succeed to grow at high rates of over 20% annually. The number of high growth SMEs is relatively limited and estimated at maximum 15% of all SMEs. Therefore the question is what if, beyond the limitations already mentioned, there are other factors which limit the performance of SMEs? What if some of them do not want to grow but to maintain the same level to assure SME owner-managers a satisfactory lifestyle? What actually wants a SME, which are the goals that guide them?

This article aims to identify how SMEs define success, which are the goals that guide them and which factors influence the setting of these goals.

The paper is organized as follows: first we present the theoretical background followed by research methodology. Then we introduce an empirical study, present the results and discuss the conclusions.

2. Literature review

2.1. Success and performance

Success and performance are two concepts that, in many studies, seem to overlap, being difficult to separate (Simpson, Padmore, & Newman, 2012). However, for many SME owners/managers company's financial performances, such as profit, sales, growth, number of employees or number of clients do not seem to be the main objectives. Rather, they have non-financial objectives related to job satisfaction, making a reasonable living, need for autonomy, creativity and community respect (Toledo-López, Díaz-Pichardo, Jiménez-Castañeda, & Sánchez-Medina, 2012). While some authors separate them into financial and non-financial criteria of success, others call them economic and non-economic goals (Reijonen, 2008).

According to these criteria, SME owners/managers were divided into two distinct categories: those with an entrepreneurial orientation – which are guided by economic objectives such as company's growth or innovation - and those with a small business orientation - which have rather non-economic goals, such as personal satisfaction or providing a standard of living for their family (Runyan, et al., 2008).

But what makes some SME owners/ managers have economic goals while others seem rather interested in non-economic goals? The answer seems to be how they define success. According to Oxford Dictionary, success means the accomplishment of an aim or purpose. Unlike success, performance is the achievement of an outcome from any activity or, according to Slack (in Simpson, et al., 2012, p.269) "the result of action". This means that if the result of an action, namely the performance level, leads to the achievement of the goal, it is considered a success.

Which are the goals that entrepreneurs set? According to values theory, goals are influenced by our values (Rokeach, 1979, p.48). Values are " desirable transsituational goals, varying in importance, that serve as guiding principles in the life of a person or other social entity" (Schwartz, 1994, p.21). Although core values of corporate capitalism are power (dominance over people and resources) and achievement (personal success through demonstrating competence according to social standards)(Kasser, Cohn, Kanner, & Ryan, 2007) human beings have a hierarchy of values which is not limited only to these two. According to Schwarz (1994) there are ten basic values which guide behaviour: power, achievement, hedonism, stimulation, self-direction, universalism, benevolence, conformity, tradition and security. These values are organized in a circumplex model which implies that a focus on one value – e.g. achievement - is associated with caring less about the opposite one – e.g. benevolence.

Values are not only psychological but also social concepts and therefore can be used at organisational level (Rokeach, 1979, p.50). Given the central position of the entrepreneur in the company (Andersson & Tell, 2009), his values will influence the organization and consequently the decisions, strategies and enterprise performance (Tomczyk, Lee, & Winslow, 2013, Kotey & Meredith, 1997).

According to a recent study, ten success criteria are used by entrepreneurs, in descending order being: personal satisfaction, profitability, satisfied stakeholders, balance between work and private life, innovation, firm survival/continuity, utility/usefulness, contributing back to society, public recognition and growth (Gorgievski, Ascalon, & Stephan, 2011).

Moreover, those ten success criteria seem to be aligned with specific values, as follows: profitability, firm survival/continuity, growth and innovation are based on values such as power and achievement, personal satisfaction is related to values such as stimulation, hedonism and self-direction, work-life balance and satisfied stakeholders are based on benevolence and universalism values while utility, contributing back to society and public recognition are supported by security, conformity and tradition values.

Again, striving for traditional business goals (such as growth) seems to conflict with personal goals such as work-life balance, supported by benevolence and universalism which are important values for most people (Gorgievski, Ascalon, & Stephan, 2011).

Therefore we will use in our research, business goals – which are related to profit, continuity, growth and innovation - and non-business goals – which are related more to personal level, such as decision makers satisfaction, work-life balance, public recognition and utility/contributing back to society. Because we are analyzing the enterprise, not the entrepreneur, we assume that goals are modelled by many stakeholders (such as the management team, the employees and in some cases a parent-company) not just the owner. Hence,

H1: SMEs with more employees, are guided by business goals rather than non-business goals.

H2: SMEs with external management are guided by business goals rather than non-business goals.

H3: SMEs connected to a parent-company are guided by business goals rather than non-business goals.

2.2. Resources, capabilities and external environment

Unlike managers, entrepreneurs act differently. They start with what they have and what they can do (resources, capabilities, personal network) to imagine things that could be done (Sarasvathy, 2001).

According to Resource Based View Theory, the resources available to a firm are both tangible - material, human, financial, informational - and intangible - advantageous contracts, licenses, organizational culture or firm reputation (Wernerfelt, 1984). It is important however, not only the resources available, but also what is the company capable to do with its resources, namely its capabilities. There are different kinds of capabilities: entrepreneurial, functional (Brinckmann, 2007) and marketing capabilities.

Entrepreneurial capabilities refer to conceptual skills (creating business models, setting objectives, developing strategies and plans), innovation skills (selecting new ways of action, divergent and unconventional thinking,) and action skills (executing/implementing strategies and plans). Functional capabilities refer to both detailed knowledge of the product that the company provides and deep understanding of what is happening in the industry. Marketing capabilities are related to market responding abilities (Roberts & Grover, 2011), networking and communication skills. Since the available means influence what a firm can do, we believe that more resources and higher capabilities will lead to o more focus on business goals:

H4: More resources lead to a higher focus on business goals.

H5: Higher abilities lead to a higher focus on business goals.

Not only the available means influence company's goals but also what is happening in the external environment. Since the external environment varies depending on the industry, we will characterize it in terms of level of uncertainty affecting demand, competition and technological development. Four levels of uncertainty were identified (Courtney, 2008):

- Level one - there is only one scenario for future development but some variables are unknown;
- Level two – there are some alternative future scenarios that can be identified;
- Level three - there is a spectrum of future scenarios we can imagine, but they represent some possibilities and not a complete list;
- Level four - it is difficult to imagine future scenarios, because everything is possible.

As the level of uncertainty increases, the entrepreneur believes that he cannot influence the results and therefore, it is limited to personal goals:

H6: Higher the degree of uncertainty in the external environment, higher the focus on personal goals.

3. Research methodology

The purpose of the present research is to study the goals of Romanian SMEs (under 250 employees). The research objectives are (1) to identify what business and non-business goals they have, (2) to identify what are the factors which influence the business goals.

The studied universe is represented by active SMEs in Romania with at least one employee. The sampling frame consists of all active SMEs in Romania at the end of 2011 which declared between 1 and 249 employees and reported a contact email address. Systematic sampling was used and 8,000 companies were selected.

Research was conducted during April-May 2012, preceded by a follow-up in July 2012. Data were collected using an online survey with a self-administered questionnaire. Since a significant percentage of e-mail addresses were incorrect (18%) and the questions were sensitive, the response rate was 3.1%. Thus, 202 questionnaires were collected. The unit of analysis is the small and medium sized enterprise (under 250 employees) from various industries. The respondents are entrepreneurs or managers of these enterprises. Data were processed and analyzed using SPSS application.

The analysis applied basic statistical methods, such as frequencies and cross-tabs. Multivariate regression analysis in SPSS was also used to differentiate the factors that allow the explanation of success in SMEs. The data were collected as part of a more extensive study of the marketing strategies of Romanian SMEs.

4. Results

Out of 202 companies, microenterprises (0-9 employees) represent 61.9% of total, small enterprises (10-49 employees) 32.2% while medium-sized enterprises (50-249 employees) the remaining 5.9%. Regarding industry, about 65% of SMEs are in services and trade (see Table 1). As there is no significant differences between the sampling frame and the base of respondents ($\chi 2 = 3.32$ and $p = 0.19$) we will not perform database calibration (weighting cases).

Table 1: Characteristics of respondents

Size	N	%
Micro (0-9 employees)	125	61,9
Small (10-49 employees)	65	32,2
Medium (50-249 employees)	12	5,9
Total	202	100
Industry	N	%
Professional, scientific and technical services	63	31,2
Wholesale, retail	46	22,8
Production	37	18,3
Other services (real estate, leasing, administrative etc.)	22	10,9
Construction	17	8,4
Accommodation and food service activities	5	2,5
Transportation and storage	4	2
Others	8	4
Total	202	100

Regarding the outside elements influence on major decisions we found that in 25% of companies external managers are involved (which do not own shares in the company), while the influence of another company (a parent-company, such as a franchisor, sole importer or representative) is found only in 12.4% of cases (see Table 2).

Table 2: Outside influences

Outside influences	Yes	No	Total
External management (employees without shares in the company)	25,0%	75,0%	100,0%
Parent-company affiliation	12,4%	87,6%	100,0%

In terms of internal environment, the most important elements are the financial resources, followed by human, informational and materials resources. The decision makers satisfaction (strongly agree = 5, strongly disagree = 1) related to the extent that they possess the necessary resources and capabilities is presented in the table below (see Table 3):

Table 3: Descriptive statistics

Variables	Mean	Std. Error	Std. Deviation
Financial resources	2,51	0,086	1,218
Human resources	2,81	0,090	1,261
Informational resources	2,58	0,096	1,329
Material resources	2,52	0,082	1,139
Total resources	2,60	0,060	0,855
Entrepreneurial capabilities	3,86	0,053	0,731
Marketing capabilities	4,31	0,038	0,532
Functional capabilities	4,39	0,043	0,602
Total capabilities	4,17	0,037	0,517

According to these results, firms are slightly dissatisfied with their own resources, especially financial resources. In terms of capabilities, companies consider that they have good functional capabilities, such as in-depth knowledge about their industry or how to offer high standard quality products/services. In terms of marketing capabilities (such as market responding abilities, networking and communication skills) it is found that firms are satisfied with what they have. Instead they appreciate rather neutrally their entrepreneurial capabilities (such as the ability to develop business models and strategies and to think unconventionally).

Regarding the external environment, 32% of respondents believe that the future can be predicted while 27% consider it is impossible (see Table 4).

Table 4: Uncertainty level

Future evolution	N	%
Level 1 - There is only one scenario for future development but some variables are unknown.	42	21%
Level 2 - There are some alternative future scenarios that can be identified.	65	32%

Level 3 - There is a spectrum of future scenarios we can imagine, but they represent some possibilities and not a complete list.	40	20%
Level 4 - It is difficult to imagine future scenarios, because everything is possible.	54	27%
Total	201	100%

SMEs goals are both business and non-business (or personal). Respondents had to allocate a fixed amount of 100 points between business and personal goals according to their importance, and the results show that business goals are, on average, more important than personal goals: 62.3 versus 38.3 (see Table 5).

Table 5: SMEs business and personal goals

Descriptive statistics	Mean	Std. Error	Std. Deviation
Business goals importance	62,2	1,304	17,001
Personal goals importance	38,3	1,308	17,055

The most important business goals are, in order, growth, profit, continuity and innovation while the most important non-business goals are work-life balance, decision makers satisfaction, public recognition and utility/contributing back to society.

We consider that a company is business oriented, if minimum 51 points are allocated for business purposes (which are related to profit, continuity, growth and innovation). We believe that a company is lifestyle oriented if less than 50 points are allocated for business purposes. This means that more than 50 points are allocated to non-business purposes such as decison makers satisfaction, work-life balance, recognition and public utility/contribuiting back to society. Research result indicates that 63.5% of companies are business oriented and 36.5% are lifestyle oriented.

To determine if there is an association between firm size, type of management and affiliation to a parent-company - on one hand - and the type of company (business / lifestyle oriented) we used chi-square test for independence. The results show that there is a link between firm size and firm goals ($\chi 2 = 6.11$ and $p = 0.047$) but the degree of association is relatively weak (contingency coefficient = 0.19). Similarly the relationship between the type of management / affiliation to a parent-company and the company type (business / lifestyle oriented) was tested. The findings show that there is no link between the type of management and company type ($\chi 2 = 5.545$ and $p = 0.136$) nor between affiliation with another company and company type ($\chi 2 = 1.287$ and $p = 0.257$). Consequently, we will accept H1 hypothesis and reject H2 and H3 hypotheses.

Regarding the correlation between resources, capabilities and goals we found that there is no association, with one exception. We identified a weak but statistically significant correlation between marketing capabilities and business objectives (correlation coefficient = 0.163 and $p = 0.037$). This means that H4 hypothesis is rejected, while H5 hypothesis is accepted but nuanced.

Regarding the influence of the external environment on non-business goals, we see that there is no link between external environment uncertainty and non-business business goals ($\chi 2 = 0.421$ and $p = 0.936$), and therefore H6 hypothesis is rejected.

To model the influence of these two factors - the company size and marketing capabilities – on business goals, we used linear regression. Company size variable can take three values (1 = microenterprise, 2=small enterprise and 3 = medium-sized enterprise) marketing capabilities are measured using a Likert scale (5 = strongly agree, 1 = strongly disagree) and business goals importance is measured on a scale from 0 to 100. Although there is controversy regarding the nature of the variables measured using Likert scale or constant sum scale, it is generally accepted that these can be used as metric variables (Malhotra, 2007, p 277). In addition, linear regression models can also use dichotomous variables (Mooi & Sarstedt, 2011).

There are some data requirements for regression analysis. First of all, the sample size should be large enough. According to some rules of thumb if you want to test the overall relationship between the independent and dependent variables, the number of observations should be at least 50+8*k (where k are the number of independent variables), in this case at least 66 observations. If you want to test for individual parameters' effect, the size should be 104+k, in this case 106 observations. Because we have collected information related to all variables for 166 cases, we consider that this requirement is satisfied. Another issue is related to collinearity, which can be tested by calculating the tolerance or VIF (Variance Inflation Factor). If tolerance is below 0.10 or VIF values are above 10, we have a collinearity issue. In our case collinearity between the two independent variables is low (tolerance=0,996 and VIF=1,004) which means that collinearity is of no concern.

The results of the regression analysis are presented below (see Table 6).

Table 6: Descriptive Statistics

	Mean	Std. Deviation	N
Business goals importance	61,75	16,541	166
Company size	1,44	0,597	166
Marketing capabilities	4,30	0,532	166

The correlation matrix (see Table 7) shows us that marketing capabilities and the importance of business goals are significantly correlated ($p<0.05$) while the number of employees are not significantly correlated with the importance of business goals ($p>0.05$).

Table 7: Correlations

		Business goals importance	**Company size**	**Marketing capabilities**
Pearson Correlation	Business goals importance	1,000	0,112	0,158
	Company size	0,112	1,000	-0,063
	Marketing capabilities	0,158	-0,063	1,000
Sig. (1-tailed)	Business goals importance	.	0,076	0,021
	Company size	0,076	.	0,209
	Marketing capabilities	0,021	0,209	.
N	Business goals importance	166	166	166
	Company size	166	166	166
	Marketing capabilities	166	166	166

We can assess the overall model fit using the coefficient of determination R2 and significance of F-value. Even if in exploratory research using cross-sectional data, values of R2 of 0.10 are typical (Mooi & Sarstedt, 2011), in our case the result is very low (0.04) which means that we don't have a good model fit. Because the F-value is significant (F=3,383 and p=0,036) we will interpret individual variables.

Table 8: ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1799,160	2	899,580	3,383	,036[a]
	Residual	43344,213	163	265,915		
	Total	45143,373	165			

a. Predictors: (Constant), Marketing capabilities, Company size

b. Dependent Variable: Business goals importance

As we can further see in the next table (see Table 9), only marketing capabilities have a significant influence on the dependent variable (p=0,033), while company size does not (p=0,113).

Table 9: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	34,719	10,987		3,160	,002		
	Company size	3,388	2,129	,122	1,592	,113	,996	1,004
	Marketing capabilities	5,149	2,391	,166	2,154	,033	,996	1,004

a. Dependent Variable: Business goals importance

Therefore, we dropped the independent variable company size from or analysis, re-run the regression model with only one independent variable and found that R2=0,03 and F-test value is statistically significant ($p<0.05$). The constant is 40,634 and the unstandardized coefficient is 4,909, which means that one point improvement in marketing abilities will increase the importance of business goals by roughly five points.

5. Conclusions

In this research we attempted to identify what success means for SMEs and what are the factors which influence the way in which they define success. We found that SMEs have business and non-business goals, the importance of business goals being on average higher than non-business goals.

We tried to identify several factors that may influence the importance of business goals of a company. If previous research has emphasized the importance of entrepreneurs personal values on business objectives, in this study we tried to see if maybe other factors related to the company, not to the entrepreneur – such as other stakeholders (employees, management, parent-company), company's resources and skills or even external environment uncertainty - have any influence. Research results show that there is no association between company's goals and those factors - except for one particular type of ability, namely the marketing abilities. But this variable is able to explain only a small percentage of business objectives importance. This makes us believe that - at least in SMEs - the entrepreneur has the most important role in determining the type of goals that will guide company's behaviour, while the influence of other factors is insignificant.

Moreover, this is also a limitation of current research. The fact that we have focused on factors beyond the entrepreneur, did not help us to identify a viable model. Nevertheless, the main benefit is that - at least for policy-makers - if you want to increase the importance of business goals in a company, you should primarily influence the entrepreneur.

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